



# Technology Insights... September 15, 2022

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*Research, Analysis, Strategy, Insight*

## Qualcomm Builds a Foundation for the Metaverse

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For the past couple of years, Qualcomm has been pivoting. Yes, it's still clearly chip provider shipping billions of its chips into a variety of markets like smartphones and IoT devices. But over the past couple of years, it's also been quietly becoming a platform provider that not only creates chips, but also enables more complete solutions by creating a significant amount of software and services to make those chips adaptable to specific markets, as well as partnering with a wide array of important infrastructure players.

Perhaps its most visible platform play currently is the Qualcomm Drive Platform. It enables a wide array of functions in cars and eventually autonomous vehicles – from infotainment to drive train components to all-important connectivity. Qualcomm has partnered with nearly every major player in vehicle manufacturing, as well as with many infrastructure enabling companies. And while deployments in cars sometimes can take years from the start of engineering until consumers can buy the results, Qualcomm is well on its way to being a key player that will benefit for an extended period of time.

Expanding on its platform play, Qualcomm has recently been looking to address the emerging Metaverse world. It is concentrating on building out a Mixed Reality (XR) platform to compliment the work it has done for several years in AR/VR. It has partnered with most of the current major players AR/VR delivering purpose-built chips (e.g., Microsoft, Meta), but has also been working with the ecosystem to define and advance the necessary peripherals to make this a reality.

We applaud Qualcomm for making such an effort to build out an ecosystem, as the challenge with any emerging market is the need to have enough “weight” behind it to produce the needed components when most of the players are smaller and/or startups. Sensors has been a big need for some time and it's not yet clear who might lead or what companies will ultimately create the most compelling products. Qualcomm leadership and investment here can prove very helpful. That's' also the case for the broader market of headsets, where the lack of scale means that relatively few devices exist and any acceleration through investment and/or market building can help expand options.

Snapdragon Spaces is Qualcomm's XR platform play. More than just HW and SW, its goal is to accelerate innovation in the XR market. An industry standard like Open XR does some of that, but not enough.

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In any new market, many smaller players build out their own unique solutions making the market a very fragmented place. Qualcomm has a goal of limiting fragmentation in the market with Spaces by creating a single ecosystem for developers that establishes a center of gravity. By building its open and horizontal platform, Qualcomm hopes to reduce this fragmentation and accelerate adoption and standardization. Currently device companies can't really build their own ecosystem given their relatively limited scale, so Spaces can fill that void by leveraging technology across many devices. Of course, Qualcomm also believes it can gain valuable market presence and ultimately revenue streams by doing so, but this doesn't negate the advantage that this effort brings to the marketplace.

Qualcomm has built an XR toolkit SDK and ecosystem for XR development, including reference designs and component supplier partnerships. While it has been creating some of its own perception technologies (e.g., voice, visual, movement, etc.), it is also partnering with third parties to build more capability into the Spaces platform. XR is not an easy technology to solve given the character of augmented and virtual worlds interacting with humans in the real world. And Qualcomm understands it can't do so on its own.

It's important to note that there will not be a single Metaverse. Indeed, there will be many sub categories based on specific needs (e.g., medical devices, manufacturing assistants, gaming, education/learning AR/VR, etc.). What made smartphones so successful was that while the early devices were very application specific, later devices became broad enough in capability to offer a multitude of solutions for user's problems on a single platform. Clearly Qualcomm used this to their advantage to capture the lion's share of the smartphone market, and they are looking to repeat this process in what they hope will be a massive XR market in the next several years. Indeed, they are even hoping to use the current breed of extremely capable smartphones as a component in making XR a reality by using a high speed connection between the head worn display and the substantial resources on the phone for edge processing, with 5G connectivity to the cloud as needed.

**Bottom Line:** While the Metaverse is still 3+ years away from major market presence, and still has a number of challenges it must meet to achieve success, Qualcomm's move to build out a platform puts it ahead in the race to become a dominant player and platform solution provider. Given its investment in chips, perception technologies, and building out of an ecosystem, including through a \$100M Metaverse Investment Fund, we expect Qualcomm to become a leader in the XR and metaverse spaces, much as it has achieved success in smartphone, and is on its way to do in vehicles as well with its Drive platform approach. Qualcomm does understand that this is a long term play, and we don't expect to see major returns for 3-5 years. Still, this is a smart move on Qualcomm's part in order to be a market leader once the Metaverse does actually take off.

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